

The Yemen Review

Summer Edition,
JULY 2021



**THE VIEW FROM
SANA'A**



The Yemen Review

The Yemen Review Launched in June 2016, The Yemen Review – formerly known as Yemen at the UN – is a monthly publication produced by the Sana'a Center for Strategic Studies. It aims to identify and assess current diplomatic, economic, political, military, security, humanitarian and human rights developments related to Yemen.

In producing The Yemen Review, Sana'a Center staff throughout Yemen and around the world gather information, conduct research, hold private meetings with local, regional, and international stakeholders, and analyze the domestic and international context surrounding developments in and regarding Yemen.

This monthly series is designed to provide readers with a contextualized insight into the country's most important ongoing issues.

COVER PHOTO:

Mosques in the Old City of Sana'a, March 22, 2020 // Sana'a Center photo

EDITOR'S NOTE:

The following is the abridged summer edition of The Yemen Review, which brings readers the essential political, military and economic updates for July. The Review's regular coverage, including a full roster of features and commentaries, will resume for next month's issue.

The Sana'a Center for Strategic Studies

is an independent think-tank that seeks to foster change through knowledge production with a focus on Yemen and the surrounding region. The Center's publications and programs, offered in both Arabic and English, cover political, social, economic and security related developments, aiming to impact policy locally, regionally, and internationally.

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A citizen on the island of Socotra. // Sana'a Center photo by Quentin Müller

The Sana'a Center Editorial

Riyadh's Unconscionable Campaign to Purge Yemeni Workers

Saudi Arabia has recently begun a campaign to purge its government-run institutions of Yemenis, many of whom have held their jobs in the kingdom for decades. The implications of this policy appear likely to cascade through the Saudi labor market and could potentially impact hundreds of thousands of Yemenis in the kingdom and millions of their family members back in Yemen who depend on remittances to survive.

Given the central and effectively irreplaceable role that remittances play in propping up what is left of the Yemeni economy, the expulsion of these workers, if allowed to continue, would further undermine whatever possibility remains of the Yemeni republic emerging from this war intact. The decline in remittances will almost certainly exacerbate the humanitarian crisis, social instability and armed conflict for years to come.

The kingdom has instructed its government institutions to deny Yemenis contract renewals. Reports of mass layoffs of Yemeni academics at universities in Najran, Jizan, Asir, and Albaha in July are just a few examples. While cities in the kingdom bordering Yemen appear to be the focus of the purge, reports of Yemenis losing their

jobs are emerging from across Saudi Arabia. Given how centralized the Saudi economy is and that a massive share of the private sector is dependent on, and contracted to, Saudi institutions, the impact of the new Saudi policy will almost certainly sprawl through the wider labor market. This means hundreds of thousands of Yemenis and their families in the kingdom could potentially be forced out.

During Saudi Arabia's oil-driven economic boom of the 1970s and 1980s, Yemenis provided much of the labor that helped build the kingdom. Until 1990, Yemenis were able to enter the kingdom without a visa, had freedom of movement and could work without a kafeel (sponsor) anywhere in Saudi. In 1990, shortly after North and South Yemen unified, the new republic was granted a rotating seat at the United Nations Security Council; Yemen subsequently abstained from the UNSC vote authorizing the United States-led military intervention to drive Iraqi forces out of Kuwait, enraging the Saudis, who retaliated by revoking the visa exemption and expelling an estimated 1 million Yemeni workers. The loss of remittances, coupled with the rapid influx of so many unemployed Yemenis back to their home country, spurred a dramatic economic downturn and social volatility from which the country never fully recovered.

The number of Yemenis working in the kingdom gradually increased in the decades that followed. Since the 2011 Arab Spring, however, and particularly in more recent years, Riyadh has accelerated a campaign to nationalize its workforce by making it progressively harder for expatriates to work in the kingdom. This has seen the costs and bureaucratic requirements increase for all non-Saudi workers, and undocumented laborers rounded up and expelled. This has already forced tens of thousands of Yemenis back to Yemen. The impact of the loss of remittances is made even more acute by the ongoing war. As the Sana'a Center has documented, the cessation of large-scale oil exports from Yemen and the onset of the Saudi-led military intervention in 2015 set off a precipitous economic collapse and foreign currency shortage. The Yemeni rial has plummeted in value and basic commodity prices have shot upwards, with Yemenis' loss of livelihoods and purchasing power in turn being the primary driver of the country's humanitarian crisis. One of the few mitigating factors that has prevented the crisis from becoming far worse is the billions of dollars Yemeni workers abroad send home every year – by far Yemen's largest current source of foreign currency – with the majority of this money originating from Saudi Arabia.

Riyadh's new policy, however, is not part of the Saudization of its workforce, but appears to be a punitive measure specifically against Yemenis. This comes after Saudi Arabia sponsored Yemen's failed post-2011 transition process that set the stage for the current war, and after its disastrous military intervention that has sowed untold death and human suffering, shredded Yemen's economy and left the armed Houthi movement firmly entrenched in power in Sana'a. Meanwhile, Riyadh has continued to prop up Yemeni President Abdo Rabbu Mansour Hadi, whose ineptitude and corruption has consistently fragmented any cohesive Yemeni opposition to the Houthis and shattered public confidence in the Yemeni state. After all this, Saudi Arabia is now targeting Yemeni workers in the kingdom, whose remittances constitute one of the few remaining bulwarks between Yemen and the bottom of the abyss. This will not only undermine the Yemeni government Riyadh claims to want to return to power in Sana'a, but harm the Yemeni population at large. That President Hadi has done nothing to bring the issue before the Saudis also speaks to his uselessness to the Yemeni people and is further evidence that he should be removed from office.

This unconscionable moral failing of the Saudi purge is obvious. What should also be obvious to international stakeholders is that a failed state at the southern end of the Arabian peninsula – one in which the most powerful actor, the Houthis, is aligned with Iran – will have global implications. The Saudi purge of Yemeni workers must be halted.

**Editor's Note: (2021-08-07) A previous version of this editorial made reference to stipulations in the 1934 and 2000 treaties between Saudi Arabia and Yemen related to the movement of labor that were erroneous and have been removed. The Sana'a Center regrets the error.*



STC military reinforcements in Al-Bayda governorate on their way to confront Houthi advances near the southern city of al-Hidd, July 10, 2021 // Sana'a Center photo by Ahmed al-Shutairi

July at a Glance

THE POLITICAL ARENA

By Casey Coombs

Developments in Government-Controlled Territory

Riyadh Rebukes STC, Fallout with Yemeni Government Continues in South

After summoning the Yemeni parties to the Riyadh Agreement to Saudi Arabia in June to resolve disputes impeding implementation of the power-sharing deal, the Kingdom's ministry of foreign affairs issued a statement on July 2 singling out recent moves by the Southern Transitional Council (STC) related to security, military and organizational appointments by the council. "The media and political escalation and the subsequent political and military appointments by the STC are inconsistent with what was agreed upon in the Riyadh Agreement," the statement said. The US, United Kingdom and France made similar statements in subsequent days regarding the STC's actions.

The STC's European Union representative, Ahmed bin Fareed, responded to the Saudi criticism on Twitter, saying, "The recent appointments made by the Transitional Council in its structure are an internal matter of the Council and do not contradict the Riyadh Agreement." The STC then released an official statement, detailing what it claimed were breaches of the Riyadh Agreement by the internationally recognized government. The UAE-backed separatist group later criticized what it called "statements issued from abroad" by Western powers following a meeting chaired by STC president Aiderous al-Zubaidi.

In the days after the international rebukes, Aden's STC-aligned governor, Ahmed Lamlas, appointed a new general manager of the local branch of the government-owned Yemen Oil Company, which oversees operations in the governorates of Aden, Lahj, Al-Dhalea and Abyan. Prime Minister Maeen Abdelmalek Saeed wrote a letter to Lamlas on July 3 instructing him to revoke the decision.

Later in the month, Saudi media and political commentators who often reflect official government positions publicly criticized the UAE for obstructing implementation of the Riyadh Agreement.

Yemeni Army Seizes Police HQ in Abyan's Lawdar District from STC

On July 2, as anti-Houthi forces made sudden advances in Al-Bayda governorate's southern Al-Zahir district, forces aligned with the internationally recognized government seized control of the police headquarters of neighboring Abyan governorate's Lawdar district from STC-aligned Security Belt forces. The move set into motion a reorganization of the command structure in the strategic district, which borders a battle front with Houthis forces in Al-Bayda governorate to the north and straddles a fault line in the struggle for power in Abyan between STC forces and the internationally recognized government's army.

A day after the police headquarters was seized, the commander of Abyan's Security Belt forces, Abdullatif al-Sayed, replaced the Security Belt commander in Lawdar, Col. Abdullah Omar Al-Damani, with Lt. Col. Ahmed Muhammad Awad. After several days of fighting and accusations against the government's newly-appointed police chief, Jaafar al-Khala, he resigned.

On July 4, STC chief Al-Zubaidi appointed new Security Belt force commanders in Abyan's central region, which generally refers to the districts of Lawdar, Mudiya, Al-Wadea and Jayshan. This included the appointment of Mohammed Mustafa al-Jaari as commander of the Security Belt forces in the central region, Wael Ahmed Muhammad Nasser as his deputy, and Al-Khader Mohammed Abdullah as head of the region's operations.

Houthi forces, taking advantage of divisions within the anti-Houthi alliance, captured most of southern Al-Bayda by mid-July.

Government Officials Ban Protests in Shabwa

On July 6, following several weeks of rising tensions between STC loyalists and the internationally recognized government in Shabwa governorate, the government-aligned Security Committee in the capital Ataq banned unauthorized demonstrations. Shabwa's governor Mohammed Saleh bin Adio, who heads the Security Committee, is fiercely anti-UAE and has accused the Emiratis of targeting him for assassination. The ban was announced on the eve of the 27th anniversary of the beginning of the 1994 civil war in which southern forces attempted to secede from the recently unified Republic of Yemen. Forces aligned with former President Ali Abdullah Saleh later defeated the southerners and imposed unity by force. In recent weeks in Shabwa, government forces have arrested a number of STC officials and activists.

Oil Spill Near Aden

On July 17, a decaying oil tanker owned by Ahmad al-Essi, a businessman and deputy head of the office of Yemen's President Abdo Rabbu Mansour Hadi, sank off the coast of Yemen's southern port city of Aden, spilling an as yet unknown amount of diesel into the Gulf of Aden.

Govt Speaker of Parliament Tours Eastern Yemen

On July 27, the speaker of the Yemeni Parliament for the internationally recognized government, Sultan al-Barakani, arrived in the city of Sayoun in Hadramawt governorate to meet with leaders of the region as part of a tour of eastern Yemen. Al-Barakani and his two deputies, Mohammed al-Shadadi and Abdul Aziz Jabari, were received by senior officials, including the Minister of Interior, Major General Ibrahim Haidan, and the undersecretary of Hadramawt governorate's Valley and Desert Affairs, Essam Habrish. The speaker's visit to Sayoun fed speculation that he plans to convene parliament there in a follow-up to the lawmaking body's only meeting during the war, held in Sayoun in April 2019. STC officials warned government officials against holding such a meeting in Hadramawt. Days later, Al-Barakani traveled to Hadramawt's capital Mukalla and then onto the neighboring governorate of Al-Mahra.

Developments in Houthi-Controlled Territory

Social Oppression Continues as Houthis Raid Women's Clothing Stores, Wedding

On July 6, Houthi authorities reportedly raided a number of women's clothing stores in Al-Safiya district in the capital Sana'a, confiscating and destroying posters of women in underwear. Authorities claimed the posters contradicted the ruling group's religious identity and beliefs. The latest Houthi crackdown comes as part of a tightening of restrictions on gender roles and women's rights in Sana'a in recent months.

The following week, on July 11, Houthi gunmen then stormed a wedding ceremony in Amran city, north of the capital Sana'a, and detained the groom and wedding singers. The following day, Houthis detained Yemeni journalist Fahed al-Rahabi for publishing a video of the arrests at the wedding hall. In June, Houthi authorities in Mahwit and Sana'a governorates ordered a ban on singing and musicians at weddings, which they claimed contravened conservative religious practices.

Government-Aligned MPs Dismissed, Al-Mashat Renewed as SPC President

On July 10, lawmakers in the Houthi-controlled parliament in Sana'a officially revoked the membership of 39 elected parliamentarians on charges of treason and aiding the enemy. Most of the dismissed MPs are affiliated with the internationally recognized Yemeni government and represent areas currently under Houthi control, which may signal Houthi intentions to fill those seats with loyalists. Last year, Houthis stripped the membership of 44 MPs.

On July 17, the Houthi Supreme Political Council in Sana'a then extended the one-year term of President Mahdi al-Mashat for the third time. Al-Mashat, who succeeded the late Saleh Al-Sammad in April 2018, will start his fourth one-year term on August 24, 2021.

Continued Obstruction of Negotiations Over FSO Safer Oil Tanker

On July 15, the Houthi negotiating committee dealing with the decaying FSO Safer oil tanker off the coast of Hudaydah city on Yemen's west coast announced that its latest talks with the UN failed to produce an agreement on inspections and repairs. The UN has pursued the negotiations to try and avert the possibility of a spill or accident that could release the more than 1 million barrels of oil onboard the vessel into the Red Sea. In recent years, the Houthis have regularly engaged in negotiations regarding the tanker, and several times come to an agreement with the UN, only to later renege and refuse to allow the UN access in an apparent game of brinkmanship to leverage the threat of a catastrophic oil spill. Officially, the Houthi authorities claim that they want the inspection and repairs to be carried out simultaneously. For its part, the

UN has said that while light repairs are possible during the inspection, the 40-year-old vessel almost certainly needs major repairs and these would be impossible to undertake before a thorough assessment were conducted, planning undertaken and tenders issued to carry out the work.

House Demolitions of Rivals Resume

On July 19, in a continuation of an intimidation tactic deployed throughout the war, Houthi forces blew up the homes of three officials affiliated with the Yemeni government in July. On July 19, Brigadier General Ahmed Said Darkam, a commander of the police patrol and road safety in Marib governorate, announced that Houthi forces had destroyed his home in Rahabah district using explosives. Ten days later, the house of his brother, Col. Talib Darkam, was reportedly blown up by Houthi forces in the same area. On July 25, a video showed the detonation of the house of Hussein al-Baramni al-Humaiqani in Al-Bayda governorate's Al-Zahir district. In recent weeks, Al-Humaiqani led efforts by anti-Houthi forces to regain control of the district, before being driven back by the end of the month. Human rights organizations have documented the Houthis' blowing up hundreds of homes of political, military and tribal opponents since they began an armed expansion outside their northern strongholds in 2014.

International Developments

Swedish Diplomat Picked as UN Special Envoy

On July 2, the UN secretary-general selected Swedish diplomat Hans Grundberg, currently EU Ambassador to Yemen, as the next special envoy to Yemen. Grundberg is a career diplomat whose main focus has been conflict resolution and the Middle East. Prior to his EU post in Yemen, Grundberg held several diplomatic positions, including in Cairo, Jerusalem and Brussels.

US Resumes Military Support for Yemeni Forces

In its 2021 Trafficking in Persons Report, published July 4, the US State Department announced it would allow for the provision of Peacekeeping Operations (PKO), International Military and Education Training (IMET) and other support for the internationally recognized government's forces. The support is designed to help the Yemeni Coast Guard, border guard units and special operations forces not directly involved in the war to combat terrorism, violent extremism and illicit smuggling from actors like Iran and ensure freedom of navigation through the Bab al-Mandab Strait. Ali Mohsen al-Ahmar, who is vice president and deputy supreme commander of the government's armed forces, welcomed the news in posts on Twitter.

Leaked Data Indicate UAE Targeted Yemeni Officials for Spying

On July 19, investigative journalists and researchers published a long list of officials from the internationally recognized government that the UAE has reportedly targeted using Israeli-made surveillance software. Targeted individuals include President Abdo Rabbu Mansour Hadi, former prime minister Ahmed Obaid bin Daghr and former ministers of foreign affairs Abdelmalek al-Mikhlaqi and Khaled al-Yamani. Many of the Yemeni officials targeted have been critical of the UAE's role as part of the Saudi-led coalition that intervened in the civil war. The Yemeni officials were among tens of thousands of politicians, journalists, activists and others around the world who were the targets of espionage by various governments using software made by the Israeli digital intelligence group NSO. The issue recently came to light through the Pegasus Project, a collaborative investigation involving 17 media outlets worldwide and Amnesty International.

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STATE OF THE WAR

By Abubakr al-Shamahi

Offensive and Counter-Offensive in Al-Bayda and Spillover in Shabwa

Yemeni government supporters had cause for optimism in early July, after a government offensive in Al-Bayda made several gains against Houthi forces in the contested governorate. The offensive, dubbed Operation Al-Najm Al-Thaqib (Piercing Star), began on July 2, and saw government-allied forces make advances in Al-Sawma'ah district, in the southeast of the governorate. This was followed by a government advance on July 4 in Al-Zahir district, southern Al-Bayda, where government forces captured the town of Jabal Shabakah in the center of the district and several other villages. The advances in early July gave government and allied forces control of the majority of Al-Sawma'ah and Al-Zahir districts, putting them less than ten kilometers from Al-Bayda city.

The initial success of the offensive raised hopes on the pro-government side that government forces would be able to take Al-Bayda city, and possibly open new fronts in Dhamar and Ibb governorates, both of which have been comfortably held by the Houthis since the beginning of the war. However, the Al-Bayda offensive appears to be following the pattern of most government offensives in 2021, such as in Hajjah and Taiz, where early government gains were quickly reversed.

By the middle of July Houthi forces had launched a counter-offensive and reversed government gains across the governorate. In fact, by the end of July, the Houthis were in a better position than they had been before the offensive began, with full control of Al-Zahir district, and advances in Na'man and Nate' districts in northern Al-Bayda.

To compound the issue, Houthi forces also began to use some of their newly acquired territory in Na'man and Nate' to attack the government-held district of Bayhan in neighboring Shabwa governorate. On July 22, Houthi forces advanced into Bayhan itself, and captured the mountain of Jabal Shater, according to local and Yemeni government military sources. Clashes have remained ongoing in the area, and Saudi-led coalition airstrikes have targeted Houthi fighters in an effort to push them back. Shabwah has been one of the Yemeni government's main strongholds in the country since they defeated Southern Transitional Council fighters in the governorate in August 2019.

Clashes in Southern Marib

One of the aims of the government's Al-Bayda offensive was to distract the Houthis from their efforts to take government-held Marib city, and advance in the wider Marib governorate. To this end, government forces have had some success; on July 14 government forces captured the majority of Rahabah district in southern Marib governorate, a district they lost in a September 2020 Houthi offensive.

Fighting between government and Houthi forces continued in Rahabah throughout July. Brigadier General Abbad Ahmed Al-Halisi, chief of staff of the government's 143rd Infantry Brigade, was killed in clashes with the Houthis in the district on July 31.

Further north, Houthi forces took advantage of seasonal rains to launch a large attack on government forces in Al-Mashjah and Al-Kassarrah frontlines, to the northwest of Marib city, on July 24. The cloudy skies meant that the Saudi-led coalition were unable to provide aerial cover for government forces, but the latter were able to halt the attack, continuing the relative stalemate on the frontlines nearest to Marib city. Separately, fighting also occurred throughout July in southern Marib's Al-Abidyah district.

Abyan Missile Attack

On July 4, a missile strike hit a mosque inside a base belonging to the government's 5th Infantry Brigade, in northeastern Mudiya district in eastern Abyan, killing four soldiers and injuring 20 others, according to local and government military sources. Government forces accused the Houthis of carrying out the attack in response to the government offensive in Al-Bayda.

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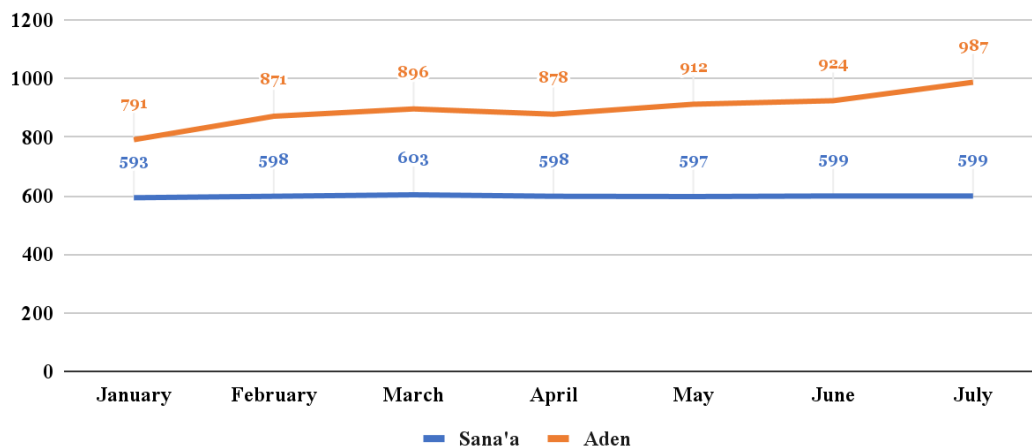
ECONOMIC DEVELOPMENTS

By the Sana'a Center Economic Unit

Rial Depreciates to Historic Lows as Yemeni Govt Escalates Currency War

During July, the Yemeni rial's (YR) value continued its steady deterioration in government-held areas, losing about 8 percent of its value relative to US\$ in market trading between July 1 and July 28, dropping from YR948 to roughly YR1025. July marked the first time in Yemen's history that the rial has crossed the YR1,000 per US\$1 threshold.

Average Monthly YR/US\$ Exchange Rate Divergence Between Sana'a and Aden, January to July 2021



The rial first crossed the YR1,000 threshold in early July. In response, on July 4, the Exchangers Association in Aden issued a circular to money exchange shops and hawala networks that mandated, among other things, the immediate halt of foreign currency trading in southern governorates and capped rial transfers between northern and southern areas.

The Central Bank of Yemen (CBY) in Aden followed up with a campaign to rein in manipulative and speculative exchanging by money exchangers and hawala networks. This began July 13, in cooperation with the public prosecution and police, and resulted in the closure of various outlets, according to a statement released on CBY-Aden's official website. These included: Al-Hazmi Exchange Company; Aden Company for Exchange and Transfers; Al-Anma Express Company for Exchange & Local and International Transfers; and Al-Farawi Company for Exchange and Transfers, among others. These outlets were permitted to reopen the following week.

While the exchange rate rebounded somewhat, the impact of these stop-gap measures was short-lived, as the Yemeni rial re-entered its slide in the second half of July and began August trading at YR1010.

Consequently, the exchange rate divergence between Houthi- and Yemeni government-controlled areas widened. At the beginning of August, a Yemeni rial in Aden had only roughly two-thirds of the purchasing power, relative to the US\$, of a rial in Sana'a, where the currency's value has remained relatively stable, trading at YR600 per US\$1.

The hawala networks also increased their processing fees for sending money from government-controlled areas to governorates under Houthi control. As of the end of July, if someone sent YR100,000 in new rial banknotes from a nominally government-held area, their intended recipient in a Houthi-held area would receive only YR58,000 in old rial banknotes.

Main Drivers of Rial's Devaluation

Several factors resulting from the conflict gradually brought about the depreciation of the rial outside Houthi-controlled areas. Primary among them is the fragmentation in monetary policies between the rival central bank branches in Sana'a and Aden. This escalated into an outright currency war in December 2019 following CBY-Sana'a's decision to ban new banknotes, printed by the CBY-Aden since 2016, from circulating in Houthi-controlled areas. Old and new Yemeni rial banknotes have since effectively been treated, and valued, as different currencies in the market. Old bills, whose supply has been gradually decreasing through wear and tear, are accepted nationwide, while new bills, the supply of which has steadily increased as the government has printed money to cover expenses, are accepted only in government-held areas. The relative surplus of new bills is exacerbated by the fact that Houthi-held territories are home to the country's largest population centers and the lion's share of its financial and economic activity.

According to senior Yemeni banking officials, between the beginning of 2017 and the end of July 2021 the CBY-Aden issued over YR3 trillion worth of new banknotes. In July alone the CBY-Aden circulated YR262 billion in newly printed YR1,000 banknotes. These notes bear a close resemblance to existing 'old' Yemeni rial banknotes [see 'CBY-Aden Attempts to Unify Rial in Currency War Escalation' below] and are part of YR400 billion that arrived via Mukalla port in June. These massive liquidity injections in government-held areas are exceeding the capacity of the relatively thin market to absorb them, either through increased domestic productivity or increased imports, thus creating further downward pressures on the value of new rials.

Since late 2020, following the complete exhaustion of a US\$2 billion deposit Saudi Arabia had given the CBY-Aden, the Yemeni government-run central bank has had little foreign currency reserves to draw on. This left it unable to finance the country's continuing demand for imports of basic commodities and fuel, which had been its primary means of pursuing exchange rate stabilization. The CBY-Aden's efforts have also been undermined by conflicts within the anti-Houthi coalition between the Yemeni government and the Southern Transitional Council (STC). The continued failure of the two sides to implement the 2019 Riyadh Agreement, which was meant to quell their rivalry, has prevented the CBY-Aden from effectively enforcing fiscal,

monetary or regulatory policies even within areas the Yemeni government nominally controls. For instance, the STC has diverted customs and tax revenues in Aden and other areas it controls into special accounts opened outside the central bank's official window.

In mid-July, the Yemeni government team assigned to follow up on the implementation of the Riyadh Agreement accused the UAE-backed STC of impeding the agreement's implementation, and exacerbating the ongoing economic challenges through direct intervention in state institutions and decision-making process in the government.

CBY-Aden Attempts to Unify Rial in Currency War Escalation

The currency war between the rival central bank branches in Aden and Sana'a appears to have entered a new stage in recent months. The CBY-Aden has begun forceful steps to reunify the Yemeni rial as a single monetary unit through issuing new YR1,000 bills that are nearly indistinguishable in size, shape and appearance to 'old' bills. The Houthi authorities currently permit only 'old' bills – issued prior to early 2017 – to circulate in areas they control.

On July 29, the CBY-Aden declared in a statement a number of decisions envisioned to put an end to the dual currency scheme, and thereby eliminate price distortions emanating from the exchange rate differential between new and old banknotes. The first decision announced in the statement said the CBY-Aden aimed to inject large quantities of the new YR1,000 notes into all Yemen's regional markets and push for its widespread use in cash transactions. The CBY-Aden will also take measures to gradually shrink the rial supply to acceptable levels in line with the market's physical liquidity needs by removing from circulation bills it issued after 2016 that are distinguishable from old rial banknotes.

Thirdly, the CBY-Aden will mandate that all banks and money exchange institutions refrain in the near future from imposing arbitrary and disproportionate fees when making transfers from Yemeni government-held areas to Houthi-held regions. Those caught violating the CBY-Aden's instruction are to be subject to severe penalties. As noted above, in the first half of July, the central bank in Aden circulated close to YR262 billion in newly printed YR1,000 banknotes.

It should be noted that during June, the CBY-Sana'a issued a number of circulars to prevent the circulation of newly printed rial banknotes in Houthi-seized areas. These stipulated that only the YR1,000 banknotes with a serial number starting with the letter (i) will be accepted; all others, such as those starting with the letter (a) are not permitted. However, according to well-informed sources who spoke to the Sana'a Center's Economic Unit, toward the end of July the CBY-Aden issued into the market quantities of the new YR1,000 currency starting with the letter (i)

This will likely come as a painful blow to Houthi authorities, who will have limited options to respond, given that the new YR1,000 banknotes will have the same size, formal characteristics, and serial numbers as those currently circulating in Houthi-controlled areas.

Should the Yemeni government succeed with its new rial policy, it would lead to a decline in rial value in Houthi-controlled areas and limit the existent divergence in the exchange rates across divided regions. At the same time, however, this escalation of the currency war could have catastrophic implications for exchange rate stabilization, and the financial sector may find itself further squeezed between the conflicting measures of the rival parties.

Yemeni Government Doubles the Customs Exchange Rate on Non-Basic Commodities

On July 25, the internationally recognized Yemeni government announced a decision to double the exchange rate used to collect customs duties on non-essential commodities from YR250 to YR500 per \$US1 in an effort to boost public revenues and reduce its massive budget shortfall. Local media, citing customs officials, stated that total customs revenues in Yemeni government controlled areas amounted to YR286 billion in 2020.

According to media sources, the new custom exchange does not apply to basic commodities – such as wheat, flour, cooking oil, rice, milk and medicine – but is exclusive to non-basic goods including cars, medical devices, and clothes entering ports in Yemeni government-controlled regions, primarily Aden, Yemen's second largest port. The new YR500 customs rate will also be applied to fuel imports via seaports outside Houthi control.

Prior to this new custom exchange policy, both the Yemeni government and de facto authorities in Sana'a continued to use a unified exchange rate of YR250 per US\$1 – in line with the official rate set by the Central Bank in April 2016 – to calculate custom duties on goods entering all Yemeni ports. However, it should be noted that the revised custom rate is still far from the current exchange rate prevailing in the parallel market: in Yemeni government areas the rial sunk to YR1000 per US\$1 in July, while the exchange rate has remained relatively stable at around YR600 in Houthi-controlled money exchange markets.

While the Yemeni government aims to significantly increase its customs revenue through doubling the tariff, the Sana'a Center Economic Unit expects that the presence of two custom exchange rates in Yemen will inevitably result in traders pursuing customs evasion and smuggling. The most likely avenue for this would be to switch ports for offloading from Aden to Hudaydah. Notably, all commercial importers in Aden have ceased the customs clearance process for their goods already warehoused at Aden port, and have refrained from taking any financial measures to pay customs regulated by the new decree.

Business groups on both sides of the frontline criticized the decree and warned of its adverse implications on the prices of both food and non-food commodities. The chambers of commerce in both Aden and Sana'a issued statements condemning the move, complaining that such a step could disturb the movement of goods and contribute to escalating levels of hunger in light of the current dire living conditions and deteriorating currency.

While the increased costs of bringing products to the consumer market would likely be limited to those goods subject to the higher tariff, the government's weak ability to regulate the commodity market would allow traders the flexibility to increase prices for basic goods as well but blame the new government policy for such.

Al-Mokha Port Reopens for Commercial Shipping

On July 30, the Red Sea port of Al-Mokha reopened to accommodate goods and commercial ships after being closed for six years as a result of the conflict. Though it was liberated by anti-Houthi forces in February 2017 during Operation Golden Spear, the port had remained inactive and in need of rehabilitation. The port was opened with the blessing and attendance of the United Nations Resident Representative and Humanitarian Coordinator, David Gressly. As of the end of July, the port had received only two merchant ships but is equipped to receive most goods and humanitarian cargo, though it lacks the capacity to accept oil derivatives. It could receive commercial ships with weights ranging from 1,000 to 2,500 tons and with a depth ranging from 3 to 5 meters.

The port city of Al-Mokha has been rehabilitated by the UAE-backed Joint Forces and the so-called "Guardians of the Republic", led by Brigadier General Tareq Mohammed Abdullah Saleh, nephew of the former President Ali Abdullah Saleh, with partial Emirati support. The port could provide a commercial window to surrounding cities such as war-torn Taiz, which has suffered from a blockade and severe shortage of food and non-food commodities.

**Editor's note: (2021-08-09) A previous version of this economic update misstated the period over which the CBY-Aden issued more than YR3 trillion in new banknotes; the correct period is beginning 2017 to July 2021, and not beginning 2020 to July 2021. It also misstated the period defining 'old' bills, which are accepted in Houthi-held areas. The correct period is prior to early 2017, and not prior to 2016. The Sana'a Center regrets the errors.*



UN envoy Martin Griffiths leaves after a news conference on Yemen talks at the United Nations in Geneva, Switzerland September 8, 2018. REUTERS/Denis Balibouse

Features

THE VIEW FROM SANA'A: A CONVERSATION

The armed Houthi movement, also known as Ansar Allah, first seized control of the Yemeni capital in September 2014. In mid-2021, Sana'a Center senior researcher Abdulghani al-Iryani and researcher Bilqees al-Lahabi traveled to Sana'a where they held meetings with various individuals and toured the city to get a sense of how it has changed under Houthi rule. On July 9, they sat down for a panel discussion regarding their trip moderated by Sana'a Center researcher Abubakr al-Shamahi. This is an edited and abridged version of that conversation.

Abdulghani al-Iryani: I have often been accused of being chronically optimistic. Well, today is the day I lose that reputation because three months in Sana'a gave me a clear idea of how difficult it is to end this war and to restore the Yemeni state.

Ansar Allah is remaking the country in its own image – politically, economically and socially. The group is changing the state, starting from elementary schools all the way through to funeral homes.

I spoke with many businessmen in Sana'a. The smaller ones are going bankrupt and being replaced by others who have relationships with Houthi authorities.

Larger businessmen, while subject to excessive taxes and arbitrary levies, are still safe for the moment, but many don't think that they'll last. The Houthis continue to come up with new taxes every now and then.

On the social level, people are divided. There is tremendous frustration and discontent with the Houthis, but people feel powerless and helpless. I think this demographic, economic and political *tajreef* (literally meaning "dredging", like trawl fishing) is an act of suicide by the Houthis because it makes it impossible for Sana'a to remain the capital of all Yemenis. The Houthis are committing suicide by trying to enforce their worldview on everyone. They are basically engaging in what would become a permanent war with the rest of the society, and there's no way that they can win over the entire Yemeni society.

Bilqees al-Lahabi: In Sana'a, the Houthis have converted the streets into galleries for the posters of their martyrs. Those martyrs have a significant presence in Sabeen Square, a symbolic place for all Yemenis that memorializes the defeat of Imamate forces in the seventy-day siege of Sana'a in 1967-68. All of their political ideology is visible in that square. Al-Iman university was also converted into a photo exhibition for martyrs as was the parliament building.

Moderator: *How much do you feel that symbolism is translating to actual support for the Houthis? What else did you notice was different from the Sana'a that you remember?*

Al-Lahabi: I left Sana'a in 2016. At the time, I said Sana'a was like Amran, but now it is more like Marran in Sa'ada.

Sana'a today is far from the Sana'a I knew. The population density is high. There are millions who were displaced to Sana'a and the city is very crowded.

I was born and grew up in Sana'a. I only left because of the war. But now you can't sit in Sana'a because of the heat. The dust was also quite bad. That was new.

The streets are in bad shape and full of potholes. All the walls of buildings are covered with the pictures of martyrs or slogans. I think people are fed up with the Houthis' control of mosques. Some people no longer go to mosques because of the chanting after prayers.

I intentionally dressed as an ordinary Yemeni woman in an abaya so I could sit in the street and talk to people. I talked to lots of people, and I can tell you that there is a lot of resentment and public indignation.

Moderator: *Could you, just as an overview, share what the thinking is within the Houthi leadership, based on the conversations you had in Sana'a?*

Al-Iryani: I went to Sana'a wanting to understand the real position of the Houthis regarding a peace settlement. What do they want in terms of power sharing and political arrangements that would follow the cessation of hostilities?

Unfortunately, I lost two key contacts: General Yahya al-Shami, assistant to Mehdi al-Mashat, head of the Supreme Political Council (SPC); and Hasan Zaid, Minister of Youth and Sports. Hasan Zaid was assassinated [in October

2020], and Al-Shami died of Covid-19 [in March]. Al-Shami's son, Zakaria, died days before him, which has sparked some rumors in Sana'a about possible alternative causes of death.

To be honest, it was not easy getting meetings. The SPC, at the Sana'a Center's request, appointed a member as our contact person. I had several meetings with that member of the SPC. I was also able to meet Mohammed Ali Al-Houthi as well as several members of the council of ministers, mushrifin (supervisors), businessmen, politicians, and even a few military and security officials who were brave enough to hold meetings of this nature.

Moderator: *I want to follow up on something you said Bilqis, which was about the opposition and anger that exists in Sana'a toward the Houthis.*

Al-Lahabi: Yemenis are not weak, but people are not confronting the Houthis because when they see the other side, the legitimate government, they have two choices: You have the Houthis, and their corruption; and a weak government with unimaginable corruption. Those in the government are seen as shameful elites in the eyes of the people. The biggest weapon the Houthis have is the legitimate government because it makes the Houthis look good by comparison.

Al-Iryani: I just want to emphasize the fact – and this has been apparent for a long time – that [President Abdo Rabbu Mansour] Hadi and the Saudis have made it possible for the Houthis to become so powerful.

Audience Question: *Is there any indication of war fatigue within the Houthis?*

Al-Iryani: Not yet. People keep hoping that the Houthis will get tired of fighting, but they can still recruit hundreds of thousands of young people. Just this summer they sent 400,000 school kids to summer camps to prepare them for jihad. So they have an almost endless source of new recruits.

Moderator: *When you say that they can recruit hundreds of thousands more, is that a reflection of genuine popular support, or does it have more to do with the poor state of the economy? Or is it more down to repressive tactics and forcing people to join?*

Al-Iryani: All of the above. Some fighters join because their fathers want them to make a living, and the only way they can earn an income is by joining one of the fighting forces.

Often one son would go to the west coast, one son would go to Marib, and one son would join the Houthis. After a while, those who joined the Houthis were indoctrinated and became militant fighters. That didn't happen with the young men who went to the west coast to join Tariq Saleh's forces or those who went to Marib with Islah or Hadi.

Al-Lahabi: I want to share with you something that a bus driver told me in Sana'a. We were passing the Supreme Election Commission and he said: "Do you want the Houthis to conduct democratic elections and have women go

into the streets demanding a quota, all the while the Houthis' hands are in the pockets of people, taking the Zakat tax? Using the excuse that all resources must go to repel the aggression, the Houthis are ruling on the cheap, not providing services to the public, not even paying salaries, and so they're not forced to make peace." Because if the Houthis did make peace, they would actually be forced to govern.

The other thing I want to say is that the popular Houthi singer Issa al-Laith is often seen driving around the city in a motorcade escorted by six technicals with heavy guns. One person told me that fighters go to the battlefield with him (motivated by his patriotic songs) and come back with Mohammed Hussayn Amer, the Qur'an reader (i.e. dead). The fighters become indoctrinated. There is actually a very strong political discourse on the frontlines that people respond to. Perhaps this is because there is no public space in Sana'a.

Moderator: Have the Houthis fully inherited the state? Are the Houthis now the Republic of Yemen?

Al-Iryani: Clearly that's what they believe. Although I'm sure there are moderates within the group who still think that there's a possibility of some level of power sharing.

Mohammed Al-Houthi has become one of those moderates, largely because the military successes of the Houthis have moved the center of gravity within the Houthi movement much further to the right. Still, he doesn't think that there has to be real, genuine power sharing with the leaders on the other side. He talked about them coming back as "returnees". This term was used at the end of the North Yemen Civil War between the royalists and the republicans in the 1960s – when the royalists were defeated, a general amnesty was issued and royalists (save for the former ruling Hamid al-Din family) were allowed to return and participate in government.

Moderator: Let's talk about the economic situation. How does this look from the ground? Have you seen an increase in poverty, an increase in the number of beggars? What kind of economic challenges are people facing that they didn't before?

Al-Lahabi: Yemenis are facing every conceivable issue. People have not been paid in years. There is a very thin margin in Sana'a and life is hanging by a thread. So anything new that people have to purchase, any increase in prices – it all makes a huge difference.

People put their hands in the fridge to see if it is cold enough to preserve food for tomorrow, and then they switch it off to save electricity. They have to decide when to use public electricity and when to use solar power. When you go to the market, you're followed by dozens of beggars. Traffic police stand in the street waiting for handouts from drivers.

I was surprised by the prices in Sana'a. I bought a few small things in a grocery shop and the price was just unimaginable. For the same amount, I could have done a full shopping trip in 2016. Grocery stores accept Saudi riyals, but they won't accept the new Yemeni rial banknotes from Aden. The result of all of this is that people are devastated, families are devastated and the middle class has disappeared.

Moderator: Yet, at the same time, we've seen an increase in new construction. How is this happening at the same time as this extreme poverty?

Al-Lahabi: War profiteers. These are the people who have made Sana'a a difficult place to live. Despite the poverty, buying or renting a house is incredibly expensive. Property prices have skyrocketed.

There are displaced people who have money after taking everything they owned, bringing it to Sana'a and starting businesses. For example, Ottair, a famous potato shop in Taiz, moved to Sana'a. This is a problem for the government: the transfer of business capital to Houthi-controlled areas.

Al-Iryani: The sharp rise of real estate prices, contrary to the dreary economic conditions of the general population, speaks to the massive corruption practiced by influential Houthi figures. Prices have risen 200-300 percent largely due to tax collection and the accumulation of new wealth for top Houthi figures. Their leader, the Sayyed (Abdulmalik al-Houthi), has more than once criticized Houthi officials who build apartment blocks with ill-gotten gains. The increase in real estate values is especially sharp in the northern neighborhoods of al-Jiraf-Alrawdah and the Southern neighborhoods of Bayt Baws-Dar Salm-Artel, forming a giant clamp on the city.

The massive expansion of urban sprawl in Sana'a has not been accompanied by development of water and power supplies. To the contrary, public power and water supplies have nearly stopped, replaced by independent producers who charge exorbitant prices. Yet there are no shortages for those who can pay. The demand has decreased because most of the people, no longer able to afford these basic services, are doing with very little of them.

Moderator: Given the general economic crisis, how can the Houthis keep funding their military operations and paying fighters?

Al-Iryani: Again, thanks to their enemies. The Houthis have been relieved of the responsibility of paying public sector salaries by the transfer of the central bank to Aden. At the same time, they continue to collect taxes on businesses, including ones operating in government-controlled areas. The taxes that come from the south and from Marib go to Sana'a because the Houthis are effective and they control state institutions.

The other side has been a total failure. The Saudis broke Yemen's economy by transferring the central bank to Aden. And I have enough evidence to say that it's the Saudis who decided to transfer the central bank. Next is the issue of the rial. The new bills (issued by the central bank in Aden) look different, so they have essentially created two currencies. This too was a Saudi plan, but all it has done is made people poorer and weaker, and made it easier for the Houthis to control them. People now are willing to keep their mouths shut, so they can receive one-quarter of a salary per month or a half salary every two months and can feed their family. It's easy to control hungry people.

Moderator: From the perspective of the people that you saw and met with in Sana'a, is there any hope?

Al-Lahabi: The resilience of people is weakening because they don't have a dignified life. Personally, I don't have confidence in either the Houthis or the government.

Al-Iryani: We have to continue to engage with the Houthis. We have to continue to talk to them. The voice of reason and moderation is still there but it's getting dimmer and dimmer. But if we continue to engage with them, we can make the moderates stronger. If you change the hostile international legal framework, we could convince more Houthis to become moderate. If we reduced the violence of the conflict, the voice of the moderation might increase. After all, this is a tightly knit group and they will all follow their leader (Abdelmalek al-Houthi). And as the French ambassador recently said, it's up to the leader to bring moderation into the movement or to allow this violence and extremism among Yemenis.

I plan to go back to Sana'a as soon as I can to continue to engage with the Houthis, hoping that my harsh criticism will not make it impossible for me to engage with them again. I will say to them the Arabic proverb: "Your friend is the one that tells you the truth, and not the one that believes what you tell them."

Acknowledgments

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The Sana'a Center for Strategic Studies is an independent think-tank that seeks to foster change through knowledge production with a focus on Yemen and the surrounding region. The Center's publications and programs, offered in both Arabic and English, cover political, social, economic and security related developments, aiming to impact policy locally, regionally, and internationally.

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